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COST-OF-LIVING PROVISIONS IN ONTARIO

COLLECTIVE BARGAINING AGREEMENTS

OCTOBER 1974

Number 3



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by

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Ontario Ministry of Labour

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Minister

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Deputy Minister



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Introduction

In recent months, rapidly rising prices have been a major factor in collective bargaining negotiations. During 1974, many proposed settlements providing for substantial wage increases were rejected and more Ontario negotiations than usual culminated in work stoppages. In most of these situations, protection of real wages was a major issue.

Unions and management have used a variety of measures to help employees cope with the rise in prices. These include one-shot lump-sum payments; advancement of wage increases that were to go into effect later during the term of an agreement; additions to wage increases recently obtained; and revision of existing cost-of-living clauses or the introduction of them in new contracts.

Generally, unions prefer to protect real wages by means of cost-of-living clauses. Such provisions enable employees to assess the degree to which their wages are eroded by price increases and to recover former levels of purchasing power at frequent intervals.

Scope of Analysis

This paper analyzes cost-of-living provisions in 823 Ontario collective agreements. Each of these agreements covers 200 or more workers and was current at least as late as October 1974. They comprise about 13 per cent of the 6,134 agreements filed with the Ministry's Collective Agreements Library for industries other than construction,¹ and apply to 663,233 employees or 70 per cent of the workers under non-construction union contracts in the Province.

The discussion that follows first describes the prevalence of cost-of-living arrangements in collective agreements in Ontario. The major part of the paper deals with the characteristics of these provisions under the following headings:

- price index used
- index revision
- frequency of review
- amount of adjustment
- limitations on adjustments
- incorporation into wage rates

1. There are no cost-of-living provisions in collective agreements in the construction industry.

- application to overtime and fringe benefits
- new development

A brief history of the development of negotiated cost-of-living provisions is presented in an appendix to this paper.

Prevalence of Cost-of-Living Provisions

Of the 823 agreements studied, 165 (20 per cent) contain cost-of-living provisions. These provisions apply to 32 per cent of the total 663,233 workers covered by the agreements studied (Table 1).

By Industry

Cost-of-living clauses are much more common in manufacturing than in other types of industry. In manufacturing they are found in 30 per cent of the agreements analyzed and apply to 53 per cent of the workers they cover (Table 1). They are particularly prevalent in the primary metals, metal fabricating, transportation equipment and electrical products industry groups, and are important in several others, notably, the meat packing segment of the food industry, tobacco products, electrical products and non-metallic mineral products. No cost-of-living provisions are found in the knitting, clothing, furniture, paper, printing and publishing, and petroleum and coal products industries. Nevertheless, manufacturing accounts for 84 per cent of the Ontario agreements covering 200 or more workers with cost-of-living provisions and 73 per cent of the employees covered by them.

Only 25 of the 367 non-manufacturing agreements studied, contain cost-of-living provisions. These are in a few large bargaining units in mining and quarrying, transportation, communications and electrical utilities. No cost-of-living provisions are found in major agreements in forestry, storage, health, recreation and personal services or in those covering Federal and Provincial civil servants.

By Union

The industry patterns described above are reflected when the data are analyzed by union. More than 30 unions have negotiated cost-of-living provisions. However 3 unions, the Auto Workers, Steelworkers and Machinists, hold 57 per cent of these agreements and account for more than 64

Table 1

Cost-of-living Provisions in Collective Bargaining Agreements
Covering 200 Employees or More, by Industry, October 1974

Industry	Total Studied		Number with Provisions		Per Cent with Provisions	
	Agreements	Employees	Agreements	Employees	Agreements	Employees
All Industries	823	663,233	165	211,544	20.0	31.9
Manufacturing	456	294,949	140	154,780	30.7	52.5
Food and beverages	41	19,528	9	7,611	22.0	39.0
Tobacco products	3	1,426	1	286	33.3	20.1
Rubber and Plastic products	18	9,415	3	1,098	16.7	11.7
Leather industries	8	2,677	2	555	25.0	20.7
Textile mill products	28	11,367	3	1,243	10.7	10.9
Knitting mills	4	1,224	-	-	-	-
Clothing industries	9	9,080	-	-	-	-
Wood products	12	3,239	1	200	8.3	6.2
Furniture and fixtures	11	3,926	-	-	-	-
Paper and Allied products	39	17,948	-	-	-	-
Printing and publishing	11	6,412	-	-	-	-
Primary metal industries	29	31,743	14	24,278	48.3	76.5
Metal fabricating	50	17,420	24	9,623	48.0	55.2
Machinery, except electrical	26	14,383	16	9,928	61.5	69.0
Transportation equipment	61	83,641	38	74,115	62.3	88.6
Electrical products	51	37,089	18	21,047	35.3	56.7
Non metallic products	19	8,986	6	2,968	31.6	33.0
Petroleum and coal products	2	1,100	-	-	-	-
Chemical and chemical products	15	6,943	1	434	6.7	6.3
Miscellaneous manufacturing	19	7,402	4	1,394	21.1	18.8

Table 1 (Cont'd)

Cost-of-living Provisions in Collective Bargaining Agreements
Covering 200 Employees or More, by Industry, October 1974

Industry	Total Studied		Number with Provisions		Per Cent with Provisions	
	Agreements	Employees	Agreements	Employees	Agreements	Employees
All Industries	823	663,233	165	211,544	20.0	31.9
Non-Manufacturing	367	368,284	25	56,764	6.8	15.4
Forestry	10	4,655	-	-	-	-
Mining & quarrying	19	35,157	7	19,923	36.8	56.7
Transportation	37	54,398	5	14,419	13.5	26.5
Storage	1	1,700	-	-	-	-
Communications	17	34,878	1	6,800	5.9	19.5
Electric, gas & water utilities	13	16,165	3	12,353	23.1	76.4
Wholesale trade	4	1,312	2	612	50.0	46.6
Retail trade	20	28,474	1	373	5.0	1.3
Education and related services	51	25,770	2	549	3.9	2.1
Health and welfare services	75	29,765	-	-	-	-
Recreational services	5	2,809	-	-	-	-
Business services	7	4,552	-	-	-	-
Personal services	17	7,269	-	-	-	-
Miscellaneous services	1	270	-	-	-	-
Federal administration	43	84,947	-	-	-	-
Provincial administration	2	4,240	-	-	-	-
Local administration	45	31,923	4	1,735	8.9	5.4

per cent of the employees benefiting from wage escalators (Table 2). Two other unions that have obtained cost-of-living protection for a large number of their members are the United Electrical Workers and the Canadian Union of Public Employees.

Table 2

Cost-of-Living Provisions in Collective Bargaining Agreements
Covering 200 Employees or More, by Union, October 1974

Union	Number with Provisions		Per Cent with Provisions	
	Agmts.	Empls.	Agmts.	Empls.
Total with provision.....	165	211,544	100.0	100.0
Auto Workers.....	59	89,400	35.8	42.2
Boilermakers.....	1	260	0.6	0.1
Canadian Operating Engs.....	1	297	0.6	0.1
Carpenters.....	1	200	0.6	0.1
Chemical Workers.....	1	550	0.6	0.3
Communications Workers.....	2	1,218	1.2	0.6
Distillery Workers.....	3	1,360	1.8	0.6
Electrical Workers (IBEW)....	2	607	1.2	0.3
Electrical Workers (IUE)....	2	1,848	1.2	0.9
Electrical Workers (UE).....	7	12,269	4.3	5.8
Foodworkers.....	4	4,500	2.4	2.1
Glass and Ceramic Workers....	3	1,398	1.8	0.7
Machinists.....	12	4,272	7.3	2.0
Moulders.....	4	1,200	2.4	0.6
Nat't. Council of Cdn. Lab....	2	452	1.2	0.2
Public Employees (CUPE).....	7	14,076	4.3	6.7
Retail Employees.....	1	373	0.6	0.2
Rubber Workers.....	2	791	1.2	0.4
Sheet Metal Workers.....	1	215	0.6	0.1
Steelworkers.....	22	42,860	13.4	20.2
Structural Iron Workers.....	1	260	0.6	0.1
Teamsters.....	3	8,850	1.8	4.2
Technical Engineers.....	1	285	0.6	0.1
Textile Workers Union.....	3	768	1.8	0.4
Tobacco Workers.....	1	286	0.6	0.1
Traffic Employees.....	1	6,800	0.6	3.2
Transit Union.....	1	5,359	0.6	2.5
United Shoe Workers.....	2	555	1.2	0.3
United Transportation Union..	1	203	0.6	0.1
CLC Directly Chartered.....	2	1,383	1.2	0.7
CNTU Directly Chartered.....	2	710	1.2	0.3
Independent Local Unions.....	10	7,939	6.1	3.8

By Size of Bargaining Unit

Seventy-five per cent of the workers who have bargained cost-of-living clauses are in units of 1,000 or more employees (Table 3). This concentration results in large part from the fact that most of the very large bargaining units in automobile and primary metal manufacturing, and in a few mines and utilities, have cost-of-living protection.

Table 3

Cost-of-Living Provisions in Collective Bargaining Agreements Covering 200 Employees or More, by Size of Bargaining Unit, October 1974

Size of Bargaining Unit	Number with Provisions		Per Cent with Provisions	
	Agrts.	Empls.	Agrts.	Empls.
Total with provision....	165	211,544	100.0	100.0
200 to 299 employees	51	12,466	30.9	5.9
300 to 399 employees	32	10,640	19.4	5.0
400 to 499 employees	16	7,131	9.7	3.4
500 to 999 employees	35	23,223	21.2	11.0
1,000 to 4,999 employees	20	38,236	12.1	18.1
5,000 employees or more	11	119,848	6.7	56.6

By Contract Term

It is evident from the data compiled that cost-of-living provisions are traded off against the term of a collective agreement. They are almost non-existent in contracts lasting less than two years and are relatively uncommon features in those of two years duration. On the other hand, 136 (82.4 per cent) of the 165 agreements with escalator provisions have terms of more than two years. No cost-of-living provisions were found in one year agreements (Table 4).

Table 4

**Cost-of-Living Provisions in Collective Bargaining
Agreements Covering 200 Employees or More,
by Duration of Agreement, October 1974**

Duration of Agreement	Number with Provisions		Per Cent with Provisions	
	Agrts.	Empls.	Agrts.	Empls.
Total with provision.....	165	211,544	100.0	100.0
Over 1 year and under 2 years.....	3	1,032	1.8	0.5
2 years.....	26	22,325	15.8	10.6
Over 2 years and under 3 years.....	36	49,337	21.8	23.3
3 years.....	94	136,106	57.0	64.3
Over 3 years and under 4 years.....	6	2,744	3.6	1.3

Characteristics of Cost-of-Living Provisions

The essential objective of cost-of-living clauses in collective agreements is to maintain the purchasing power of money wages during the term of the contract. This is achieved by adjusting wage rates in response to changes in living costs as indicated by an appropriate price index. The principal elements of cost-of-living clauses are: the index used to measure price change, the frequency with which the index is reviewed and the formula for computing the amount of wage adjustment.

Price Index Used

Statistics Canada's All-Canada Consumer Price Index is the most common yardstick used in Ontario agreements to measure changes in living costs. It is specified in 93 per cent of the agreements with cost-of-living provisions and

applies to 72 per cent of the employees covered by them (Table 5). This index is compiled monthly and measures changes in the prices of goods and services commonly bought by middle-income families of two to six persons and living in metropolitan areas with 30,000 or more inhabitants. It reflects the prices of goods that make up a typical "market basket" of purchases for families in the circumstances mentioned.

Table 5

Consumer Price Index Used in Cost-of-Living Provisions in
Collective Agreements Covering 200 Employees or More
October 1974

Index	Agreements		Employees	
	Number	Per Cent	Number	Per Cent
Total with provision.....	165	100.0	211,544	100.0
Statistics Canada national index.....	153	92.8	151,972	71.8
Statistics Canada Toronto index.....	2	1.2	5,619	2.7
United States Bureau of Labour Statistics national index.....	3	1.8	2,137	1.0
Combined Statistics Canada-United States Bureau of Labour Statistics index..	7	4.2	51,816	24.5

Statistics Canada also compiles consumer price indices for 12 regional cities across Canada, including Ottawa, Thunder Bay and Toronto. Only two agreements covering 5,619 employees use a city index - the Toronto Index.

Almost all the cost-of-living provisions that are tied to Statistics Canada's Consumer Price Index relate to the current Index based on 1961=100. However, a few clauses rely on the 1949 based Index. Since a given percentage increase in prices will represent a larger point rise in the Index based on 1949 than in that based on 1961, the adjustment

formulae are somewhat different.

The national Consumer Price Index compiled by the United States Bureau of Labor Statistics is specified as the measure of price change in three Ontario agreements, covering 2,137 employees. They are in firms that bargain jointly with their counterparts in the United States and are in mining, can manufacturing and automobile parts manufacturing. All the agreements specifying the United States Bureau of Labor Statistics Index refer to the current one based on 1967.

The fourth index used is that established by the "Big Three" automobile manufacturers and the Auto Workers in their 1973 round of negotiations. It is a combined United States-Canada Consumer Price Index, weighted 90 per cent and 10 per cent, respectively, to provide uniform cost-of-living adjustments for the companies' employees on both sides of the border. About 25 per cent (51,816) of the Ontario employees with bargained escalators are tied to this index.

Index Revision

Most cost-of-living clauses contain conditions regarding two types of revision that may be made to price indices. One refers to revision of the published index figures, and the other is revision of the structure of the index itself. On the first type of change, clauses specify that revisions in published index figures will not result in adjustment of cost-of-living allowances. These clauses are usually in the following standard form:

"No adjustment retroactive or otherwise shall be made due to any revision which may be made in any Consumer Price Index published by Statistics Canada." (Effective September 26, 1974; Imperial Tobacco Products, Guelph; and Tobacco Workers, Local 323).

Those clauses that refer to revision of the structure of an index emphasize that the continuance of cost-of-living adjustments will depend on the publication of the index in its present form, and usually stipulate what actions will be taken when such revisions occur. Most often the parties agree to negotiate a substitute index or to request Statistics Canada to continue to make figures available to them on the earlier basis of index calculation. For example:

"If the Consumer Price Index is discontinued the parties shall negotiate an appropriate adjustment or conversion factor to assure the employees will receive that cost-of-living adjustment to which they would have been

entitled had the Consumer Price Index been published as contemplated by the parties. If no agreement is reached the parties shall request Statistics Canada or its successor to provide the conversion or adjustment factor which shall become applicable as to each of the adjustment dates after the discontinuance of the Consumer Price Index." (Effective July 1, 1974; Crown Cork And Seal, Toronto; and Crown Cork And Seal Employees Association).

Frequency of Review

The frequency with which the price index is reviewed to determine whether or not a wage adjustment is required makes a difference in the degree of protection employees get from escalator clauses. In periods of rising prices the more frequently the index is reviewed the more effective the protection given, and the more acceptable the arrangement is to workers. However, in periods of falling prices, frequent reviews are likely to be less acceptable to employees.

Review of the index every three months is by far the most common practice; more than 75 per cent of the agreements covering 70 per cent of the employees call for this (Table 6). All, or nearly all the provisions in meat packing, wood products, transportation equipment, non-metallic mineral products, chemicals, miscellaneous manufacturing, mining, wholesale and retail trade and education provide for quarterly revision. For example:

"Effective August 1, 1975 a cost-of-living allowance program will be instituted providing \$0.01 per hour for each 0.5 point rise in the Consumer Price Index. Payments will commence in November 1975, based on the total point advance in the Consumer Price Index from July 1975 to October 1975. Thereafter the allowance will be adjusted at three month intervals based on the Index as of January 1976, April 1976 and July 1976..." (Effective November 14, 1973; Mathews Conveyor, Port Hope and Cobourg; and Machinists, Local 1805).

Semi-annual review of the Index is specified in 12 agreements covering 11 per cent of the employees under cost-of-living provisions. All the clauses in leather goods, truck transportation and electric utilities have this arrangement. For example:

Table 6

Frequency of Cost-of-Living Adjustments in Collective Bargaining Agreements
Covering 200 Employees or More, by Industry, October 1974

Industry	Number with Provisions		Frequency of Adjustments										One adjustment during term of agreement		Other	
			Monthly		Quarterly		Semi-Annual		Annual							
			Agrts	Empls	Agrts	Empls	Agrts	Empls	Agrts	Empls	Agrts	Empls				
All Industries	165	211,544	4	1,380	125	148,559	12	23,994	18	30,741	3	955	3	5,915		
Manufacturing	140	154,780	2	630	112	126,737	6	2,645	15	23,257	3	955	2	556		
Food & Beverages	9	7,611	-	-	9	7,611	-	-	-	-	-	-	-	-		
Tobacco products	1	286	-	-	-	-	-	-	-	-	-	-	-	1 286		
Rubber & plastic products ..	3	1,098	-	-	3	1,098	-	-	-	-	-	-	-	-		
Leather industries	2	555	-	-	-	-	2	555	-	-	-	-	-	-		
Textile mill products	3	1,243	-	-	3	1,243	-	-	-	-	-	-	-	-		
Wood products	1	200	-	-	1	200	-	-	-	-	-	-	-	-		
Primary metal industries ...	14	24,278	-	-	7	4,006	-	-	7	20,272	-	-	-	-		
Metal fabricating	24	9,623	2	630	14	6,359	1	220	6	2,204	1	210	-	-		
Machinery, except electrical	16	9,928	-	-	13	8,847	-	-	2	781	1	300	-	-		
Transportation equipment ...	38	74,115	-	-	37	73,198	1	917	-	-	-	-	-	-		
Electrical products	18	21,047	-	-	16	19,934	1	668	-	-	1	445	-	-		
Non-metallic mineral products	6	2,968	-	-	5	2,698	-	-	-	-	-	-	1	270		
Chemical & chemical prod. ...	1	434	-	-	1	434	-	-	-	-	-	-	-	-		
Miscellaneous manufacturing.	4	1,394	-	-	3	1,109	1	285	-	-	-	-	-	-		
Non-Manufacturing	25	56,764	2	750	13	21,822	6	21,349	3	7,484	-	-	1	5,359		
Mining and quarrying	7	19,932	-	-	5	19,039	1	410	1	474	-	-	-	-		
Transportation	5	14,419	-	-	-	-	3	8,850	1	210	-	-	1	5,359		
Communications	1	6,800	-	-	-	-	-	-	1	6,800	-	-	-	-		
Electric, gas & utilities ..	3	12,353	-	-	1	264	2	12,089	-	-	-	-	-	-		
Wholesale trade	2	612	-	-	2	612	-	-	-	-	-	-	-	-		
Retail trade	1	373	-	-	1	373	-	-	-	-	-	-	-	-		
Education & related services	2	549	-	-	2	549	-	-	-	-	-	-	-	-		
Local administration	4	1,735	2	750	2	985	-	-	-	-	-	-	-	-		

"The cost-of-living allowance shall be paid in the first full pay period in January 1975 following the issuance of the December 1974 Index and shall be based on a 0.6 rise or fall equalling one cent (1¢) per hour depending on the difference between the immediately preceding June and December figures which are released in July and January respectively. From then on, adjustments will be made each six (6) months." (Effective December 2, 1973; Tonka Corp., Toronto; and Moulders, Local (28)).

Annual review of the price index is required in 18 of the cost-of-living clauses (12 per cent) covering 31,263 employees (15 per cent) with such arrangements. Half of the cost-of-living clauses covering 83 per cent of the employees in primary metals bargaining units are under annual review; and one-fourth of the provisions in fabricated metal products, applying to 35 per cent of the employees, have this arrangement. For example:

"Following the release of the Consumer Price Index for August 1973 by Statistics Canada the company shall compare such Index figure with the Consumer Price Index for August 1972...and for each .6 increase in the Index during the period -entioned...an allowance of 1¢ will be paid up to a maximum of 4¢ per hour."

"Following the release of the Consumer Price Index for August 1974 by Statistics Canada the company shall compare the index for August 1973...and for each .6 increase in the Index an allowance of 1¢ will be paid up to a maximum of 4¢ per hour." (Effective August 2, 1972; Steel Company of Canada, Swansea Works, Toronto; and Steelworkers, Local 3767).

For agreements, covering 1,380 employees, stipulate monthly reviews of the index. Two of them are in local government and the other two in metal fabricating. For example:

"Effective September 1, 1974 the cost-of-living allowance based on the net index of 1961=100 will be paid weekly and adjusted on a monthly basis of (.01¢) one cent for each .4 change in the Index." (Effective August 15, 1974; International Tools, Windsor and Kingsville; and the Canadian Labour Congress, Local 1680).

Only one review of the index is permitted during the entire life of three agreements covering 955 employees in the metal fabricating, machinery and electrical products industries. For 510 of the employees, this means one possible wage adjustment in a two-year period, and for 445 employees one adjustment over a three year period. For example:

"A cost-of-living allowance in the amount of 1 cent (\$0.01) for each .4 point increase from the base index will be calculated. The total allowance of seven (\$0.07) will be paid effective on September 16, 1975 and there will be no further adjustments for cost-of-living changes during the term of this Collective Agreement." (Effective September 16, 1973; Franklin Manufacturing, Cambridge; and Machinists, Local 1246).

Amount of Adjustment

The wage increase employees may receive to compensate for price increases is determined by formulae set forth in the agreements. The most common formulae are expressed in terms of a cents-per-hour adjustment for a specified point change in the index used. The smaller the change in the index necessary to initiate a wage adjustment and the shorter the review period, the less slippage in workers' real wages. Long index review intervals may permit substantial declines in real wages.

Seventy-five per cent of the formulae provide for a 1-cent per hour wage adjustment for changes ranging from 0.4 to 0.6 of a point in the price index (Table 7). This arrangement covers 55 per cent of the employees and occurs in a wide range of manufacturing and non-manufacturing industries.

Formulae specifying a 1-cent adjustment for each 0.3 to 0.35 of a point change in the index are found in 21 agreements and cover 32 per cent (67,056) of the employees under cost-of-living provisions. Eighty per cent of these workers are concentrated in the transportation equipment industry and have a 1-cent for each 0.3 point change formula.

Formulae that require percentage adjustments in the same amount as the percentage change in the price index provide the greatest protection against rising prices. Percentage formulae also maintain the differentials between jobs by granting larger adjustments to higher paid employees. On the other hand, uniform cents-per-hour formulae, by

Formulae in Cost-of-Living Provisions in Collective Bargaining Agreements
Covering 200 Employees or More, by Industry, October 1974

Formula	Number with Provisions		Industries Affected
	Agrts	Empls	
Total	165	211,544	
1¢ per hour for each 0.3 point	9	53,635	Mining; metal fabricating; transportation equipment; wholesale trade
1¢ per hour for each 0.325 point ...	2	1,284	Metal fabricating
1¢ per hour for each 0.35 point	10	12,137	Machinery; transportation equipment
1¢ per hour for each 0.4 point	35	38,292	Mining; food and beverages; textile; primary metals; metal fabricating; transportation equipment, electrical products; non-metallic mineral products; chemical and chemical products; miscellaneous manufacturing
1¢ per hour for each 0.45 point	29	26,545	Food and beverages; rubber; wood; machinery; transportation equipment; electrical products; non-metallic mineral products; miscellaneous manufacturing
1¢ per hour for each 0.46 point	3	1,440	Machinery; transportation equipment; transportation
1¢ per hour for each 0.5 point	35	22,985	Food and beverages; primary metals; metal fabricating; machinery; transportation equipment; electrical products; non-metallic mineral products; transportation; electric power, gas and water utilities; wholesale trade; retail trade; education and related services
1¢ per hour for each 0.55 point	1	581	Machinery
1¢ per hour for each 0.6 point	21	25,523	Mining; primary metals; metal fabricating; machinery; electrical products; miscellaneous manufacturing; transportation
1¢ per hour for each 0.7 point	1	315	Electrical products
1¢ per hour for each 0.8 point	1	293	Electrical products
1¢ per hour for each 1.0 point	4	1,123	Mining; textile; non-metallic mineral products; miscellaneous manufacturing
2¢ per hour for each 1.0 point	1	280	Metal fabricating
2¢ per hour for each 2.0 point	2	555	Leather goods
40¢ per week for each 0.45 point ...	1	285	Electrical products
3¢ per hour for each 2.5 point	1	5,359	Transportation
40¢ per week for each 4.6 point	1	251	Transportation equipment
\$1.73 per month for each 0.3 point .	2	861	Transportation equipment
3% of wages for each 3%	2	12,089	Electric power, gas and water utilities
Other	4	7,711	Tobacco products; metal fabricating; machinery; communications

narrowing occupational wage differentials, give relatively greater protection to low-paid employees who are likely to feel the pinch of inflation more severely.

Percentage adjustment formulae are found in the only two major agreements with cost-of-living provisions in the electric utility industry. These agreements, which cover 12,000 employees, provide for a 3 per cent wage adjustment for each 3 per cent rise in the index.

The formulae in most cost-of-living provisions use changes in the consumer price index as determined for a specific date. However, in some cases, chiefly in the transportation equipment industry, the change is based on the average of the monthly indices for each review interval. If the cost-of-living is rising steadily, this approach will result in a slightly lower wage adjustment than if the arrangement uses the most recent index value. An example of formulae based on an average of index values is as follows:

Three Month Average

"Effective January 1, 1974 and for any period thereafter as provided...the cost-of-living allowance shall be paid in accordance with the following table:

<u>Three-Month Average Combined Consumer Price Index</u>	<u>Cost-of-Living Allowance</u>
130.7 or less	\$0.00
130.8 - 131.0	1.73
131.1 - 131.4	3.47
131.5 - 131.7	5.20
131.8 - 132.1	6.93

and so forth with \$1.73 (per month) adjustment for each 0.3 point change in the average index for the appropriate three months as indicated..."
(Effective January 1, 1974; Ford Motor Co., Windsor; and Auto Workers, Local 240).

Limitations on Adjustments

While the wage adjustments arising from escalator clauses, generally, are determined as described above, they may be subject to limitations in the form of the timing of the provision, triggers, caps, guarantees and floors. These

limitations are only described here. In order to compare them they would have to be related to other aspects of the contract settlement in which they were negotiated.

Timing of Provision

Although almost three-quarters of the cost-of-living arrangements found are applicable for the full life of the agreement, 39 covering 63,964 workers, specifically limit wage escalation to the later months of the contract (Table 8). Seventeen of these agreements have a term between two and three years, but escalation occurs in the last two years of five of them and in the last year of the other twelve. In the remaining 22 agreements, whose term is three years or more, escalation is deferred until the last two years of nineteen and for the last year of three.

Triggers

Twelve of the cost-of-living provisions require that the index on which adjustments are based increase by a specified amount before the formula is applied. The amount of change necessary to trigger the formula is expressed either in points or percentage terms. In another four agreements, the index must reach a pre-determined level before the formula is put into operation (Table 9). The following is an example of a triggered formula.

"If, in 1975, the Consumer Price Index as published by Statistics Canada increases from the index as at December 31st, 1974 by more than 21 points the rates of pay for all classifications set out in schedule "A" shall be adjusted upwards on the basis of one cent per hour for each .5 increase over the 21 points." (Effective January 1, 1974; Borough of North York; and CUPE, Local 94).

Caps

A cap sets the maximum amount of wage increases that can be derived from price changes. The device was first introduced in the basic steel industry agreements in 1960 after substantial wage adjustments had occurred from the cost-of-living provisions negotiated in 1956.

Sixty-six of the cost-of-living provisions, covering 36 per cent (76,487) of the employees, contain maximum limits on the wage adjustments that can be made in response to price

Table 8

Period in Which Cost-of-Living Provisions Apply in Collective Agreements
Covering 200 Employees or More, by Duration of Agreement, October 1974

Effective Period	Total	Duration of Agreement										
		Over 1 and Under 2 Years		2 Years		Over 2 and Under 3 Years		3 Years		Over 3 and Under 4 Years		
		Agrts.	Empls.	Agrts.	Empls.	Agrts.	Empls.	Agrts.	Empls.	Agrts.	Empls.	
Total with provision.....	165	211,544	3	1,032	26	22,325	36	49,337	94	136,106	6	2,744
Entire term of agreement.....	125	142,221	3	1,032	16	6,329	28	40,406	73	92,176	5	2,278
Last two years of agreement.....	24	49,005	-	-	-	-	5	5,638	18	42,901	1	466
Last year of agreement.....	15	14,959	-	-	9	10,637	3	3,293	3	1,029	-	-
No specific period stated.....	1	5,359	-	-	1	5,359	-	-	-	-	-	-

increases. These restrictions are found mainly in primary metals, fabricated metal products, electrical products and mining agreements. In most cases the maximum is applied on an annual basis but in a few agreements it is specified only for the full term of the contract. The maxima vary greatly from one agreement to another, and to demonstrate this range, are shown in Table 10 in relation to the period over which the cost-of-living provisions apply.

Table 9

Minimum Increase Required in Consumer Price Index Before
Cost-of-Living Formula Applies in Collective Agreements
Covering 200 Employees or More, October 1974

Minimum Increase	Agreements	Employees
Total with provision.....	165	211,544
Number requiring minimum CPI increase.....	16	14,871
0.8 point increase in CPI.....	1	761
5.0 point increase in CPI.....	2	551
21.0 point increase in CPI.....	1	750
1¼ per cent increase in CPI...	4	4,794
3½ per cent increase in CPI...	2	791
7 per cent increase in CPI...	2	750
CPI must reach specified level..	4	6,474
No minimum increase in CPI required	149	196,673

Guarantees

As a countervailing measure against maximum limits of cost-of-living adjustments, unions, since 1967, have sought to include clauses guaranteeing minimum adjustments regardless of the movement of the Consumer Price Index. However, such guarantees occur in only 19 agreements covering 27,500 workers. Most of these agreements are in the electrical products industry, but 44 per cent of the employees affected are in electric utilities.

Table 10

Maximum Cost-of-Living Adjustments Provided in Collective Agreements Covering 200 Employees or More,
by Term of Cost-of-Living Provision, October 1974

Maximum for Agreement Term	Total		Term of Cost-of-Living Provision											
			Under 12 Mths		12 Mths		13-23 Mths		24 Mths		25-34 Mths		36 & 45 Mths	
	Agrts	Empls	Agrts	Empls	Agrts	Empls	Agrts	Empls	Agrts	Empls	Agrts	Empls	Agrts	Empls
Number with maximum	66	76,487	8	9,904	7	2,419	17	33,752	17	23,636	10	4,450	7	2,326
5 - 9 cents per hour	15	12,620	2	535	3	1,058	3	1,536	7	9,491	-	-	-	-
10-14 cents per hour	9	21,244	1	240	-	-	6	20,551	1	243	-	-	1	210
15-19 cents per hour	8	6,306	-	-	2	801	4	4,080	-	-	2	1,425	-	-
20-24 cents per hour	19	24,320	3	8,501	1	260	3	785	7	13,301	3	884	2	589
25-29 cents per hour	3	1,413	-	-	-	-	-	-	1	315	1	777	1	321
30-49 cents per hour	3	1,199	1	343	-	-	-	-	-	-	-	-	2*	856
45 cents per hour	2	893	-	-	-	-	-	-	-	-	2	893	-	-
53 cents per hour	1	238	-	-	-	-	-	-	-	-	1	238	-	-
\$1.05 per hour	1	350	-	-	-	-	-	-	-	-	-	-	1	350
\$8.00 per week	1	285	-	-	-	-	-	-	-	-	-	-	-	-
\$10.50 bi-weekly	1	300	-	-	1	300	-	-	-	-	-	-	-	-
Varies for different employees	1	6,800	-	-	-	-	1	6,800	-	-	-	-	-	-
Other	2	519	-	-	-	-	-	-	1	286	1	233	-	-

*The term of the cost-of-living provision in one agreement is 45 months and covers 431 employees.

Table 11 shows the total minimum guarantees for each of the agreements in which they are found. The guarantees are shown against the term of the cost-of-living clause. The amounts vary widely, but there is some suggestion that they increase with the length of the term of the provision.

Table 11

Minimum Guaranteed Cost-of-Living Adjustments Provided in
Collective Agreements Covering 200 Employees or More,
by Term of Cost-of-Living Provision, October 1974

Term of Cost-of-Living Provisions	Number of Agreements	Total Minimum Guarantee for Each Agreement
9 months	1	9¢
12 months	1	6¢
20 months	1	26¢
22 months	1	16¢
24 months	6	5¢, 18¢, 20¢, 25¢, 3% (2 agrts)
27 months	1	26¢
33 months	3	13¢, 26¢, 45¢
34 months	2	13¢, 27¢
36 months	3	13¢, 26¢, 45¢

Floors

Another safeguard unions commonly negotiate in cost-of-living provisions relates to reduction in allowance in response to downward movements in the Consumer Price Index. Virtually all the agreements with cost-of-living provisions include a floor below which adjustments cannot be decreased. The floors appear as statements specifying a given index point below which no downward cost-of-living adjustments would be made, or emphasizing that basic wage rates would not be subject to reduction by any decline in the Index. Clauses regulating decreases in cost-of-living adjustments were first won by the Auto Workers in 1950 after its members had suffered wage cuts in 1949 as a result of a substantial drop in the Consumer Price Index. For example:

"For each .5 point rise in the Index above the base...there will be a 1¢ per hour increase in the cost-of-living allowance; likewise when the Index drops back .5 points, there will be a 1¢ per hour decrease in the cost-of-living...but in no event below the base rate." (Effective November 15, 1973; Anchor Cap and Closure, Toronto; and United Electrical Workers, Local 512).

Incorporation into Wage Rates

Cost-of-living allowances "float" until they are negotiated into a more permanent form. They are generally identified as a special bonus or "add-on" to compensate for higher living costs, separate from and not part of employees' basic wage rates. For example:

"Until rolled into the rates...the cost-of-living allowance shall be considered an "add-on" and shall not be deemed part of the employee's standard hourly wage rate..." (Effective March 15, 1974; American Can, Hamilton and Simcoe; and Canadian Labour Congress, Locals 354 and 535).

When renewing agreements, unions usually negotiate to have the existing allowance "folded" into wage rates. In practice, part or all of the "float" gained under a previous contract is folded in and any remainder is carried into the new agreement unaffected by subsequent changes in the Consumer Price Index. Occasionally the allowance is discontinued.

A recent development is provision for incorporating into the wage structure allowances gained under the current agreement, usually at annual intervals. This arrangement occurs in 17 agreements covering 7,520 employees. Most of these agreements are in the fabricated metal products industry. An example is as follows:

"Effective September 1, 1974, the cost-of-living allowance (32¢) thirty-two cents as at July 31, 1974 will be folded into the base rate which is included in the Job Classification Schedule."

"Effective September 1, 1974, the cost-of-living allowance based on the net index of 1961=100 will be paid weekly and

adjusted on a monthly basis of (.01¢) one cent for each .4 change in the index. The cost-of-living allowance will be folded into the employee's hourly base rate every six months on the following dates: March 15, 1975; September 15, 1975; March 15, 1976; September 15, 1976; March 15, 1977." (Effective August 15, 1974; International Tools, Windsor and Kingsville; and Canadian Labour Congress, Local 1680).

Application to Overtime and Fringe Benefits

Although virtually all the agreements with cost-of-living provisions define the allowances as a specific payment to be added to straight time earnings, 78 of them covering 89,416 employees, include the allowances in the calculation of overtime and fringe benefits (Table 12).

Table 12

Inclusion of Cost-of-Living Adjustments in Selected
Supplementary Wage Payments in Collective
Agreements Covering 200 Employees or More
October 1974

Type of Supplementary Payment	Agreements	Employees
Total with supplementary payments .	78	89,416
Shift premium.....	10	15,330
Overtime pay.....	40	35,862
Call-in pay.....	29	52,612
Holiday pay.....	56	73,985
Vacation pay.....	52	72,223
Jury pay.....	18	45,430
Bereavement pay.....	16	44,892
Sick pay.....	3	1,188
All payments based on regular rates.....	8	5,864
No inclusion of cost-of-living adjustments in supplementary payments.....	87	122,128

NOTE: Provisions are non additive. Cost-of-living allowance may be included in more than one supplementary payment.

A few stipulate inclusion of the allowance only in the calculation of overtime, but in most cases the allowance is taken into account in computing overtime, other premium pay and benefits, particularly vacation and holiday pay. Eight agreements merely state that cost-of-living allowances will be included in all payments based on regular rates.

New Development

An important new development is the extension of the escalation principle to the pensions of retired employees. The practice is not as yet widespread but is found in several agreements negotiated by the Steelworkers and Brewery Workers. The agreement between the Steelworkers and the Continental Can Company provides for pensions to increase by 65 per cent of the average annual percentage increase in the index used. This arrangement is based on an initial adjustment to be made on March 1, 1976 and will be applicable only to the pension benefits of employees retiring on or after March 1, 1974. Under the Brewery Workers agreement, the adjustment will start in January 1975, and will apply to employees retiring after January 1, 1974. The increases in benefits will be up to a maximum of 2 per cent of the basic pension if the Consumer Price Index increased by 2 per cent or more in the preceding September.

APPENDIX

Development of Cost-of-Living Provisions

The use of cost-of-living provisions has varied with the state of the economy ever since they were adopted in 1948. Interest in these provisions usually increases during periods of rising prices and declines during periods of stable prices.

The Auto Workers precedent-setting agreement was negotiated with the General Motors Corporation in the United States in May 1948 and in Canada two months later. It contained the first cost-of-living provision that was designed to adjust employees' wages automatically with changes in the cost-of-living. The provision was agreed to again in the 5-year contract negotiated with General Motors in May and June 1950, and by the end of that year was adopted throughout the automobile industry and among automobile parts and farm equipment manufacturers.

The automobile industry example, and increasing prices following the start of the Korean War in 1950 and their reappearance in 1956, gave impetus to the spread of cost-of-living provisions in Canada. In 1950 the Food Workers Union (then the United Packinghouse Workers) negotiated cost-of-living provisions in its agreements with Canada Packers, Swift Canadian, and Burns & Co. (Eastern), dropped them in 1952, reinstituted them in 1958, dropped them again in 1960, and has picked them up again since 1966. In 1951, employees at Ontario Hydro won a cost-of-living clause that has continued ever since. Four years later in 1955, the United Electrical Workers Union negotiated a cost-of-living provision with the Canadian General Electric Company, abandoned it in 1960 and picked it up again in 1967.

Although there are currently no cost-of-living provisions in construction agreements, they were included in the 1950's in agreements negotiated by the Bricklayers, Carpenters, Electrical Workers (IBEW), Labourers', International Operating Engineers, Iron Workers, Painters and Plasterers Unions in Thunder Bay, Toronto, and Windsor. By 1961 the provisions were dropped and they have not been reinstituted since.

Unlike its counterpart in the United States, which adopted cost-of-living provisions in steel industry agreements in 1956 and dropped them in 1962, the Steelworkers Union in Canada did not have such contract provisions in basic steel agreements until 1969. In that year the Union won a cost-of-living provision in its agreements with the Steel Company of

Canada and Algoma Steel; and obtained similar clauses in mining and can manufacturing in 1971. The recent increase in the number of cost-of-living provisions is mainly attributable to Steelworkers agreements.

An important development is the cost-of-living provisions won by the Rubber Workers Union in its recent agreements negotiated with Goodyear Tire and Rubber, Firestone Tire and Rubber, Seiberling Rubber, and Uniroyal. In the United States, the union failed to secure such provisions in its 1973 round of negotiations in the rubber industry.

